

Message Text

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ACTION STR-04

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TO SECSTATE WASHDC 2100

INFO USMISSION GENEVA

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 0094

GENEVA FOR PHELAN

FROM SMITH/STR

E.O. 11652: GDS

TAGS: ETRD, CA

SUBJ: TEXTILES: MFA RENEWAL DISCUSSIONS WITH GOC

1. SUMMARY: GOC DOES NOT BELIEVE MFA-TYPE SOLUTIONS ARE ADEQUATE TO MEET PROBLEMS OF DOMESTIC TEXTILE INDUSTRY AND MAY OPT OUT OF MFA UNLESS IT CAN OBTAIN MODIFICATIONS IN TEXT. SUGGEST WASHINGTON AGENCIES CONSIDER IMPLICATIONS OF GOC WITHDRAWAL AND WHAT CAN BE DONE TO BRIDGE GAP IN USG AND GOC APPROACHES TO MFA RENEWAL. END SUMMARY.

2. AT LUNCHEON JANUARY 10 WITH DOUGLAS ARTHUR, GOC TEXTILE NEGOTIATOR AND AARON SARNA, INDUSTRY, TRADE AND COMMERCE (ITC) GATT OFFICE, LEARY OF EMBASSY, WESTON OF STATE AND SMITH OF STR DISCUSSED AT LENGTH MFA RENEWAL AND GAINED FOLLOWING IMPRESSIONS OF CURRENT GOC THINKING TOWARD RENEWAL.

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3. GOC IS HARD PRESSED TO JUSTIFY ITS CONTINUED ADHERENCE TO WHAT ARTHUR CALLED A BAD AGREEMENT. ARTHUR SAID CERTAIN GOC OFFICIALS ARE QUESTIONING WHY GOC EVER AGREED TO MFA IN THE FIRST PLACE, WITH SUCH BUILT-IN FACOTRS AS MINIMUM SIX PERCENT GROWTH, SWING, AND CARRY-OVER PROVISIONS. THE GOC SIMPLY COULD NOT TOLERATE SUCH PROVISIONS GIVEN THE PRESENT

CANADIAN TEXTILE SITUATION -- THE HIGH IMPORT PENETRATION RATIOS (52 PERCENT IN APPAREL) AND UNDER UTILIZATION OF DOMESTIC PRODUCTION CAPACITY (ONLY 49 PERCENT).

4. ARTHUR CONTINUED THAT HE THOUGHT THE ONLY WAY GOC COULD SEE ITS WAY CLEAR TO CONTINUED MFA PARTICIPATION WAS BY GAINING TWO MODIFICATIONS TO PRESENT MFA TEXT. THE FIRST WOULD PERMIT DIFFERENTIAL IMPORT GROWTH RATES DEPENDING UPON THE HEIGHT OF THE IMPORT PENETRATION RATIO IN THE PRODUCT CONCERNED, THE GROWTH OF DOMESTIC PRODUCTION, AND PROSPECTS FOR DOMESTIC CONSUMPTION. THE SECOND WOULD PERMIT LOWER BASE RATES THAN CURRENT ACTUAL TRADE FOR BILATERAL ARTICLE 4 AGREEMENTS. WITHOUT THESE TWO IMPORTANT CHANGES, ARTHUR FELT THE GOC WOULD BE BETTER SERVED BY RELIANCE ON GATT ARTICLE XIX WHICH, HE ADDED, WAS MORE EQUITABLE ANYWAY.

5. ARTHUR ALSO REPEATED MANY OF THE ARGUMENTS ON THE MFA WHICH CANADA, SINCE THE 1973 DAYS WITH MCKENNIREY, HAS PRESENTED SUCH AS:

A. CANADA DOES NOT HAVE THE SAME "CLOUT" AS THE U.S. AND HENCE CANNOT EFFECTIVELY NEGOTIATE SOUND ARTICLE 4 BILATERALS.

B. EVEN IF THE GOC HAD THIS CLOUT, IT DOESN'T HAVE THE PERSONNEL AND/OR TIME.
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C. THE MFA IS REALLY A "BIG BOYS' AGREEMENT" I.E., IT WORKS WELL FOR BIG IMPORTING AND EXPORTING COUNTRIES BUT NOT FOR SMALL AND MEDIUM SIZED COUNTRIES.

D. THE MFA ALSO WORKS WELL FOR IMPORTING COUNTRIES LIKE THE USA WHICH HAVE RELATIVELY LOW IMPORT PENETRATION LEVELS BUT FOR COUNTRIES LIKE CANADA, WITH MUCH HIGHER I/P RATIOS, IT DOESN'T. HE CITED THE FAMILIAR MEYNELL ANALOGY OF 6 PERCENT OF 50 IS HIGHER THAN 6 PERCENT OF 10 IN TERMS OF ANNUAL GROWTH.

6. ARTHUR STATED THAT THE GOC TOOK THE RECENT ARTICLE XIX ACTIONS BECAUSE (A) THERE ARE INHERENT DIFFICULTIES TO THE GOC IN TAKING PROMPT ACTION UNDER THE MFA (TEXTILE POLICY OF 1970 PREVENTS GOC FROM TAKING EMERGENCY ACTION OR EVEN NEGOTIATING BILATERAL RESTRAINT ARRANGEMENTS WITHOUT PRIOR FINDING OF

MARKET DISRUPTION BY TEXTILES AND CLOTHING BOARD)
AND, MORE IMPORTANTLY (B) THE MFA DID NOT PERMIT
ROLLBACKS. THIS APPEARS TO BE THE REAL KEY TO THE
GOC POSITION ON THE MFA -- THE INABILITY OF A MFA
PARTICIPATING IMPORTING COUNTRY TO ROLL BACK THE
TRADE LEVELS TO LEVELS IT FEELS (FOR POLITICAL AND/OR
ECONOMIC REASONS) IT CAN TOLERATE AS A BASIS FOR
NORMALIZING THE SITUATION UNDER ARTICLE 4 AGREEMENTS.

7. CONTINUING HIS NEGATIVE ARGUMENTS ABOUT THE MFA,
ARTHUR HAD SOME UNKIND WORDS FOR THE TEXTILES
COMMITTEE CHAIRMAN, ESPECIALLY LONG'S INSISTENCE THAT
THE TC DISCUSS CANADA'S GATT ARTICLE XIX ACTIONS OF
NOVEMBER 29. ARTHUR SAID THE GOC DELEGATION SHOULD
REALLY HAVE REPAIRED TO THE BAR DURING THAT DEBATE.
HE THEN WENT ON TO DISPARAGE THE TSB IN TONES SIMILAR
TO THOSE HEARD THIS PAST DECEMBER IN GENEVA. HE
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DID NOT, CURIOSLY, REPEAT THE GOC'S EARLIER INSISTENCE
FOR A PERMANENT SEAT. (COMMENT: MAYBE BECAUSE HE
DOESN'T FORESEE CANADA STAYING IN THE MFA. END
COMMENT.)

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8. WHEN U.S. SIDE INDICATED ITS BELIEF THAT SIGNIFICANT MODIFICATIONS TO MFA TEXT DID NOT APPEAR NEGOTIABLE, ARTHUR REACTED SHARPLY, IN ESSENCE SAYING THAT LDCS HAD TO BE BROUGHT BACK TO REALITY, THAT THEY HAD TO UNDERSTAND THAT GROWTH AND INCREASED ACCESS AD INFINITUM INTO DEVELOPED COUNTRIES' TEXTILE MARKETS WERE SIMPLY NOT POSSIBLE EITHER POLITICALLY OR ECONOMICALLY. THE MFA HAD TO TAKE THIS INTO ACCOUNT.

9. ARTHUR AND SARNA WILL DEPART FOR GENEVA THIS COMING SUNDAY FOR THE SEVEN PLUS SEVEN TEXTILES MEETING. ARTHUR INDICATED HE WILL HAVE FIRM PROPOSALS TO MAKE DURING THE MEETING, AGAIN PRESUMABLY REGARDING DIFFERENTIAL GROWTH RATES AND LOWER BASE LEVELS.

10. COMMENT: AS EVIDENCED FROM THE ABOVE, ARTHUR'S STATEMENTS CAN HARDLY BE CHARACTERIZED AS ENCOURAGING VIS-A-VIS THE GOC'S CONTINUED PARTICIPATION IN THE MFA. CLEARLY, THE GOC FEELS ITSELF UNDER CONSIDERABLE POLITICAL PRESSURE TO REVERSE THE TEXTILE IMPORT TRENDS HERE, AND IT SEEMS QUITE WILLING TO SHUNT ASIDE ITS MFA OBLIGATIONS TO DO THIS. IT DOES NOT APPEAR THAT GOC REALLY FEELS ITS RECENT GATT ARTICLE CONFIDENTIAL

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XIX ACTIONS WILL DO MUCH MORE THAN "STABILIZE" THE SITUATION (ARTHUR'S WORDS) BUT AS SHOWN BY CANADIAN INDUSTRY'S POSITIVE REACTION TO THE RECENT GOC MEASURES, THE GOC HAS AT LEAST GIVEN THE APPEARANCE OF TAKING FIRM, POSITIVE ACTION.

11. OF GREATER CONCERN TO THE USG IS THE GOC'S CURRENT NEGATIVE STANCE TOWARD (OR AT LEAST, CONSIDERABLE LACK OF ENTHUSIASM FOR) THE MFA. WHILE IT MAY BE MISLEADING TO ASSUME THAT ARTHUR HAS THE FINAL GOC WORD ON MFA PARTICIPATION, IT IS OBVIOUS THAT KEY GOC DECISION-MAKERS -- IN PARTICULAR INDUSTRY, TRADE AND COMMERCE MINISTER JEAN CHRETIEN -- DO NOT CONSIDER MFA-TYPE SOLUTIONS ADEQUATE FOR CANADA'S CURRENT PROBLEMS. INDEED, UNLESS THE GOC GETS THE MFA CHANGES IT WANTS, THERE IS A LEGITIMATE POSSIBILITY THE GOC WILL NOT STAY IN THE MFA -- AT LEAST THAT IS THE MESSAGE ARTHUR AND HIS COLLEAGUES ARE SIGNALLING RATHER POINTEDLY.

12. WE MUST ASSUME THAT ARTHUR'S AGGRESSIVE STANCE IS MORE THAN SIMPLY A TOUGH BARGAINING POSITION AND, HENCE IT DOES NOT SEEM PREMATURE FOR INTERESTED WASHINGTON AGENCIES TO MULL OVER THE IMPLICATIONS TO THE U.S. SHOULD THE GOC DECIDE TO LEAVE THE MFA. IT IS ONE THING FOR THE AUSTRALIANS TO THREATEN TO LEAVE: SINCE THEY HAVEN'T ABIDED WITH THE MFA SINCE DAY ONE, SOME INCLUDING OLIVIER LONG WOULD SAY THEIR PRESENCE WOULD NOT BE MISSED. HOWEVER, IT IS PRESUMABLY QUITE ANOTHER THING FROM A U.S. GOVERNMENT, INDUSTRY, AND LABOR

UNION VIEWPOINT IF THE CANADIANS WERE TO OPT OUT. PROBLEM
WOULD BECOME EVEN MORE ACUTE IF THE COMMUNITY EITHER DIGS
ITS HEELS IN OVER MFA MODIFICATIONS OR, IN CERTAIN CASES
AT LEAST, SUCH AS THE PHASE-OUT PROGRAMS, CONTINUES TO HONOR
THE MFA MORE IN THE BREACH.

13. IN ANY EVENT, IT DOES SEEM CLEAR THAT IN TEXTILE AND MFA
TERMS, WE HAVE A DELICATE PROBLEM ON OUR HANDS WITH THE
CANADIANS AND THAT WE MUST THINK THROUGH CAREFULLY HOW WE
CAN AND/OR SHOULD BRIDGE THE GAP IN OUR APPROACHES TO THE MFA
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RENEWAL QUESTION. END COMMENT.
ENDERS

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